NORTH CENTRAL REGIONAL TRANSIT DISTRICT (NCRTD)
FINANCE SUBCOMMITTEE

Friday, August 31, 2012
9:00 a.m. - 11:00 a.m.
Jim West Regional Transit Center
Espanola, NM

AGENDA

CALL TO ORDER

Roll Call

ITEMS FOR DISCUSSION/RECOMMENDATION:

A. **FTA Financial Management Oversight (FMO) Final Report:** Discussion. *Sponsor:* Anthony Mortillaro, NCRTD Executive Director, Brian Mirabal, Finance Manager.

B. **Draft Revised Procurement Rules:** *Sponsor:* Anthony Mortillaro, NCRTD Executive Director. *Attachments: Revised Procurement Rules (to be distributed Monday August 24, 2012)*

MATTERS FROM THE SUBCOMMITTEE

ADJOURN

If you are an individual with a disability who is in need of a reader, amplifier, qualified sign language Interpreter, or any other form of auxiliary aid or service to attend or participate in the hearing of the meeting, please contact the NCRTD Executive Assistant at 505-310-1428 at least one week prior to the meeting, or as soon as possible. Public documents, including the agenda and minutes, can be provided in various accessible formats.

U.S. Department
of Transportation
**Federal Transit
Administration**

REGION VI
Arkansas, Louisiana,
New Mexico, Oklahoma,
Texas

819 Taylor St. Suite 8A36
Fort Worth, TX 76102
817-978-0550
817-978-0575 (fax)

August 1, 2012

Anthony J. Mortillaro, Executive Director
North Central Regional Transit District
3600 Rodeo Lane Ste B-6
Santa Fe, NM 87507

Re: FMO Review Final Report

Dear Mr. Mortillaro:

The Federal Transit Administration's (FTA) Financial Management Oversight (FMO) contractors, Financial Business Solutions, LLC with Holmes+Company, LLC, have completed the enclosed FMO Final Report for their review of North Central Regional Transit District (NCRTD).

The Final Report has incorporated NCRTD's responses to the Draft Report, which have closed two Material Weaknesses and eleven Significant Deficiencies. Material Weakness' #4, and #5; and Significant Deficiencies #1 and #13 require additional information in order to finalize the closeout of these findings. The report gives details of each finding as well as information to complete the corrective actions.

The corrective actions for Material Weakness' #4, and #5 should be implemented and supporting documentation submitted to FTA by **September 1, 2012.** Although the corrective actions for Significant Deficiencies #1 and #13 are not due until October 30, 2012, FTA is requesting NCRTD provide a status report on these corrective actions by **September 1, 2012.** FTA is also asking for a copy of NCRTD's revised Procurement Policies and Procedures once they are approved in August 2012.

The two Advisory Comments did not require corrective actions; however, the FTA appreciates NCRTD's positive responses to these suggestions.

The FTA wishes to thank you for the cooperation provided by you and your staff. If you have any questions or comments on this matter, please feel free to phone Gail Lyssy, Director of Program Management & Oversight, or Abel Ayala, Program Management Specialist, at (817) 978-0550.

Sincerely,

Robert C. Patrick
Regional Administrator

Enclosures
cc: Kelly Muniz, Financial Manager, NCRTD (w/enclosure)
cc: Commissioner Daniel R. Barrone, Taos County, 105 Albright Street, Suite G, Taos, NM 87571 (w/enclosure)
cc: Frank J. Sharpless, Bureau Chief, Transit & Rail Bureau, PO Box 1149, Santa Fe, NM 87504 (w/enclosure)
cc: David Harris, Transit Manager, Transit & Rail Bureau, PO Box 1149, Santa Fe, NM 87504 (w/enclosure)
cc: Amy Jernigan, TPM-1 (w/o enclosure)

FINANCIAL MANAGEMENT OVERSIGHT REVIEW

Full Scope Systems Review

of

North Central Regional Transit District

PERFORMED FOR

U.S. DEPARTMENT OF TRANSPORTATION

FEDERAL TRANSIT ADMINISTRATION

Prepared by

Financial Business Solutions, LLC with Holmes+Company, LLC

Under

CONTRACT NUMBER: DTFT60-10-D-00003

TASK ORDER NUMBER: T11003

Report Date: March 8, 2012

Final Report Submission Date: July 3, 2012

U.S. Department Of Transportation
Federal Transit Administration

Financial Management Oversight Review

North Central Regional Transit District

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U.S. Department Of Transportation
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Financial Management Oversight Review

North Central Regional Transit District

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Report of Independent Accountants

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HOLMES+COMPANY, LLC
Business Advisors and Certified Public Accountants

Report of Independent Accountants

To the Regional Administrator

Federal Transit Administration Region VI:

We understand that the Federal Transit Administration (FTA) has awarded North Central Regional Transit District (NCRTD) the grants listed in Section I of this report. We have examined the effectiveness of NCRTD's internal control over compliance with FTA financial management system requirements as of December 31, 2011, as set forth in Section VI of this report, based on 49 CFR Part 18 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), Section 18.20, "Standards for Financial Management Systems." Management is responsible for maintaining effective internal control over NCRTD's compliance with FTA financial management system requirements. Our responsibility is to express an opinion on the effectiveness of management's internal control over compliance with FTA financial management system requirements based on our examination.

Our examination was conducted in accordance with Attestation Standards established by the American Institute of Certified Public Accountants and, accordingly, included obtaining an understanding of the financial management system, testing, and evaluating the design and operating effectiveness of the financial management system, and performing such other procedures, as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on NCRTD's compliance with FTA's financial management system requirements.

Because of inherent limitations in any internal control structure or financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As discussed in Section II of this report, our examination identified material weaknesses in NCRTD's internal controls over compliance with FTA financial management system requirements. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of NCRTD's financial statements will not be prevented or detected and corrected on a timely basis. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Report of Independent Accountants (continued)

In our opinion, because of the effect of the material weaknesses described above on the achievement of the objectives of the control criteria, NCRTD has not maintained effective internal control over its compliance with FTA financial management system requirements as of March 8, 2012, based on the criteria established by the FTA as set forth in Section VI of the report.

Significant deficiencies are discussed in Section III of this report. Certain advisory comments regarding procedures that do not affect our opinion or impact the criteria cited in the first paragraph of this report are described in Section IV of this report.

Holmes & Company LLC

March 8, 2012

Section I

Brief Description of North Central Regional Transit District

Background

Regional Transit Districts (RTDs) in New Mexico
In 2003, the New Mexico Legislature passed Senate Bill 34, the "Regional Transit District Act" (RTDA). This legislation authorized the creation of regional transit districts in the State of New Mexico and outlined their powers and duties.

In 2004, House Bill 231, "Regional Transit Gross Receipts Tax Imposition," was passed allowing for member municipalities and counties of an RTD to seek to increase Gross Receipts Tax (GRT) in those governmental units for regional transit district purposes. RTD Board in order to apply for and receive operational funding administered by NMDOT. NCRTD was certified by the NM State Transportation Commission on September 16, 2004. Their Board approved a Service Plan on July 7, 2006. NCRTD started operating service October 2006.

In 2007, House Bill 1265, County Regional Transit Gross Receipts, was passed and repealed the municipal transit gross receipts tax and streamlined the manner in which an increase to GRT for regional transit district purposes can be implemented. If a majority of the voters in the RTD approve a GRT ordinance, the ordinance becomes effective in accordance with the provisions of the County Local Option Gross Receipts Taxes Act.

As of April 2008, four RTDs have been certified in New Mexico. A service plan must be approved by the respective A 1/8th of 1 percent GRT ballot measure was approved by the voters on November 4, 2008. The GRT measure has a 15-year sunset and is set to expire June 30, 2024.

North Central Regional Transit District (NCRTD)
The role of the NCRTD is to coordinate, operate and contract for services in the north central New Mexico service area. There are Eleven (11) members in the NCRTD: The pueblos of Tesuque, Pojoaque, San Ildefonso, Santa Clara, and Ohkay Owingeh; the counties of Los Alamos, Taos, Rio Arriba and Santa Fe; and the cities of Española and Santa Fe. Consolidated operation under the NCRTD began October 2007 blending the systems of the City of Española and Rio Arriba County and introducing enhanced connective routes from Taos County. The NCRTD now operates 20 fixed routes in the 4 counties of Los Alamos, Rio Arriba, Taos, and Santa Fe. Additionally demand response service is provided in Santa Fe, and Rio Arriba Counties.

Hours of Operation: M-F 5:00 a.m. to 7:00 p.m. - Taos Commuter;
M-F 5:15 a.m. to 7:15 p.m. - all other routes including demand response.
Fares: Free on fixed route; Vehicles in Fleet: 42; Ridership: 166,791.

Active FTA Grants

The following is a list of NCRTD's active FTA Grants as of December 31, 2011

Grant Number	Grant Title	Grant Amount	Expenditures 12/31/2011
NM-04-0005-00	Capital Grant	$445,000	$352,073
NM-04-0015-00	Capital Grant	$475,000	$129,167

Section II

Material Weaknesses

Material Weaknesses

For purposes of this examination, a material weakness is a significant deficiency, or combination of significant deficiencies, in the design or operation of one or more components of the financial management system that results in more than a remote likelihood that a material misstatement will not be prevented or detected by management or employees in the normal course of performing their assigned functions.

The conditions and recommendations are provided below, with notation of the standard impacted, discussion of the significance of the condition, a summary of the Grantee's proposed corrective actions and evaluation thereof.

Material Weaknesses

1. No Ethics/Conflict of Interest Policy Covering Employees

Condition

No conflict of interest statement or policy exists for employees other than for the Board of Directors' By- Laws and the Investment Policy.

Standard Impacted

49 CFR, 18.36(b) (3) *Procurement Standards*. "Grantees and subgrantees will maintain a written code of standards of conduct governing the performance of their employees engaged in the award and administration of contracts. No employee, officer or agent of the grantee or subgrantee shall participate in selection, or in the award or administration of a contract supported by Federal funds if a conflict of interest, real or apparent, would be involved."

Circular 4220.1F, Chapter III, Section (1) Written Standards of Conduct. The Common Grant Rules require each recipient to maintain written standards of conduct governing the performance of its employees engaged in the award and administration of contracts.
a. Personal Conflicts of Interest. As provided in the Common Grant Rules and the Federal Transit Administration (FTA) Master Agreement, no employee, officer, agent, or board member, or his or her immediate family member, partner, or organization that employs or is about to employ any of the foregoing may participate in the selection, award, or administration of a contract supported with FTA assistance if a conflict of interest, real or apparent, would be involved. Such a conflict would arise when any of those previously listed has a financial or other interest in the firm selected for award.

b. Gifts. The recipient's officers, employees, agents or board members may neither solicit nor accept gifts, gratuities, favors, or anything of monetary value from contractors, potential contractors, or parties to subagreements. The recipient may set minimum rules when the financial interest is not substantial or the gift is an unsolicited item of nominal intrinsic value.

Recommendation

NCRTD should adopt a conflict of interest policy to distribute to employees and obtain acknowledgement that anyone associated with the procurement process has reviewed the policy on a periodic basis.

This recommendation should be implemented within 30 days from the date of this report.

Discussion

There is no mechanism for informing employees of conflict of interest restrictions or reporting requirements. In addition, there is no whistle blower policy or any method for employees to report suspected improprieties.

Material Weaknesses

Summary of Grantee's Response

The NCRTD is updating their Personnel Policies and Procurement Rules. They plan to present them to the Board of Directors this summer for their approval. These documents will contain an Ethics/Conflict of Interest Policy statement.

The employees will be required to attest to receiving the new Personnel Policies and Procurement Rules and abiding by them.

Evaluation of Grantee's Response

Grantee's response is adequate.

Material Weaknesses

2. Incomplete Procurement Records for Major Purchases

Condition

NCRTD's procurement documentation maintained on file for purchases greater than $25,000 inadequately addresses the record keeping requirements specified by the FTA.

Standard Impacted

49 CFR, 18.20(b) (6) *Source Documentation.* "Accounting records must be supported by such source documentation as canceled checks, paid bills, payrolls, time and attendance records, contracts and subgrant award documents."

Circular 4220.1F, Chapter III, Section 3d (1) Procurement History. The Common Grant Rules require the recipient to maintain and make available to FTA written records detailing the history of each procurement, as follows: (a) Procurement Method; (b) Contract Type; (c) Contractor Selection; and (d) Cost or Price.

Recommendation

NCRTD should establish procedures to ensure that all required information is documented and maintained in the procurement file. NCRTD must exercise great care to ensure that procurement files for contracts that are federally funded are complete and available for audit for the required record retention period. If information is removed from a completed procurement file, procedures must be in place to document the individual responsible for the document and its location.

This recommendation should be implemented within 60 days from the date of this report.

Discussion

During our review, NCRTD was unable to locate and provide several items of documentation that are critical components of a complete procurement file for two contracts. NCRTD's procurement process does not provide consistent or adequate documentation procedures and practices. Various documents pertaining to a transaction were kept in several places and current employees are generally unaware where or how to assemble a complete set of documents that meet FTA procurement requirements. For example, large awards such as the Admin Facility construction that was awarded to the Stoven Construction Company had no documentation indicating; a) the required advertisement or b) the DBE or Minority bidding participation. In addition to these documents, for contracts issued to Northern New Mexico Builders, who were awarded the contracts for bus shelter installations, the Grantee could not produce a bid analysis sheet or an independent cost estimate.

Material Weaknesses

Grantee's Response

The NCRTD is in the process of updating a procurement policy and accompanying these updated policies there will be specific direction for staff on what processes need to be followed.

The procurement policies should be presented to the Board of Directors in August for their approval.

Due to the small size of the NCRTD, the District does not have a procurement staff assigned these duties. The Executive Director is considering a reorganization that will provided for consolidation of procurement responsibilities.

Evaluation of Grantee's Response

The grantee's response is adequate in that it is in the process of updating its procurement policy and the processes needed to be followed by staff in order to maintain a proper file. In addition, the grantee is considering a reorganization of staff responsibilities to become more efficient with procurement procedures.

Material Weaknesses

3. Inadequate Control over the ECHO Drawdown Process

Condition

One individual is responsible for the entire ECHO drawdown process. Thus, there is no review and approval of supporting records to ensure compliance with Federal guidelines.

Standard Impacted

49 CFR, 18.20(b) (2) *Accounting Records*. "Grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system.

Circular 5010.1D, Chapter VI, Section 2(d) (5) states, "The following objectives and standards facilitate the grantee's use of internal controls: Adoption of internal control policies, plans and procedures that reasonably ensure their effectiveness, such as organizational separation of duties."

Circular 5010.1D, Chapter VI, Section 9(c), Policy for ECHO Payments. "If payment is made under ECHO, by means of an ECHO Control Number (ECN), the grantee agrees to comply with the requirements of 49 CFR 18.21 and 19.22, and 31 CFR part 205, and as described in FTA's ECHO System User Manual for Grantees."
Disbursement guidelines are in accordance with policies established in Department of Treasury Circular 1075, part 205, "Withdrawal of Cash from the Treasury for Advances under Federal Grant and Other Programs," and by FTA financing agreements. These guidelines state that the recipient organization shall commit itself to:

(1) Initiating cash drawdowns for immediate disbursement needs meaning three business days. Excess Federal funds held more than three days must be returned to FTA along with any interest earned. See Chapter VI, Subsection 9.e., "Repayment to FTA," below for detailed information on requirements to remit interest.
(3) Timely reporting of cash disbursements and balances as required by the Federal program which is FTA.

Recommendation

NCRTD must ensure that adequate segregation of duties exists over the preparation, review and approval, submission, and recording of ECHO drawdowns to reduce the risk of error or unauthorized drawdowns.

This recommendation should be implemented within 60 days from the date of this report.

Material Weaknesses

Discussion

We noted that ECHO drawdowns are initiated, authorized, and transmitted by the Financial Manager, and there is no log of drawdowns maintained to reconcile the activity in the bank account, the general ledger and in TEAM. The same individual also maintains the supporting documentation used to prepare the ECHO drawdown. Reliance on one individual to carry out the entire ECHO drawdown process increases the likelihood that transactions may not be submitted or recorded timely and errors could go undetected.

Summary of Grantee's Response

A reconciliation/approval form has been developed. The process involves the Financial Manager compiling all payment packets for the grants that a reimbursement request is being processed for. The Financial Manager will then complete the reconciliation/approval form and attaches all the documentation (payment packs, reports from Accounting Software) to confirm the amount being requested for reimbursement is correct. The Executive Director then reviews and approves the drawdown request.

Evaluation of Grantee's Response

The Grantee's response is adequate if the process is implemented as described above and followed on a consistent basis.

Material Weaknesses

4. No Documented FFR Preparation and Review Process

Condition

FFR filings have contained incomplete and inaccurate information, as well as not being filed timely.

Standard Impacted

49 CFR, 18.20(b) (1) *Financial Reporting.* "Grantees must have procedures to provide reasonable *assurance that "accurate, current, and complete disclosure of the financial results of financially* assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

49 CFR, 18.20(b) (2) *Accounting Records.* "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system.

Circular 5010.1D, Chapter III, Section 3(b) Financial Status Report (FSR). "A grantee must submit an FSR for each active/executed grant. The requirement for an FSR applies to all FTA grants covered by this circular. The FSR accompanies the Milestone Progress Report (MPR) and is used to monitor project funds. The purpose of the FSR is to provide a current, complete, and accurate financial picture of the grant. This report is submitted electronically in TEAM and must be prepared on the accrual basis of accounting; that is, income is recorded when earned instead of when received, and expenses are recorded when incurred instead of when paid. FTA does not allow the FSR to be prepared in the cash method of accounting. A grantee may keep its books on the cash basis during its accounting year. If this is the case, at the submission of the FSR, the grantee must prepare the necessary accruals and submit the FSR on the accrual basis of accounting."

Circular 5010.1D, Chapter VI, Section 2(e) (1) (e) states, "Written operating procedures must exist and be simply stated, yet meet the grantee's operating, legal, and regulatory." requirements.

Recommendation

NCRTD should develop and implement a comprehensive procedure covering preparation, review, and filing of the FFR.

This recommendation should be implemented within 60 days from the date of this report.

Material Weaknesses

Discussion

During our review of selected FFR's, we noted that on grant NM 04 0005 the participants share was left blank. In addition, NCRTD has been reporting on the cash basis, they are not reporting encumbrances and some filings have been late. Finally, there was no clear record of amounts expended and available under each grant.

Summary of Grantee's Response

No response was provided by the grantee for this finding.

Evaluation of Grantee's Response

No response provided to evaluate.

Material Weaknesses

5. Inadequate Accounts Payable Processing Procedures

Condition

Verification of receipt of goods and services, matching Purchase Order (PO) information to the invoice, and other invoice review procedures employed are not clearly indicated on invoices.

Standard Impacted

49 CFR, 18.20(b) (2) Accounting Records. "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system

49 CFR, 18.20(b) (3) *Internal Control.* "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

Recommendation

NCRTD should develop and implement a voucher checklist, which clearly indicates responsibility and completion of applicable review functions.

This recommendation should be implemented within 60 days from the date of this report.

Discussion

Many invoices/supporting documents provide no clear indication of matching invoices and receiving reports to the PO, verification of quantity or services received, and invoice review functions being performed. In addition, information such as contract or vendor number and purchase requisitions was not included in the various disbursement records. Our review of check disbursements (cash journal) noted two (2) duplicate entries. Based on our discussion with the Financial Manager, this sometimes happens due to different funding sources. But for those that are actual errors and subsequently paid twice, the company is contacted for reimbursement of funds.

Material Weaknesses

Grantee's Response

The NCRTD does not use the 3-part PO process and with limited staff it is unlikely that such a process will be implemented. However, the Finance Manager will review the current process and develop procedures to the extent feasible that may satisfy the FTA requirement but not result in additional staffing costs that are unwarranted at this time.

Evaluation of Grantee's Response

The grantee's response is inadequate, as it fails to offer any corrective action plan to address the recommendation.

Section III

Significant Deficiencies

Significant Deficiencies

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

These conditions and recommendations are provided below, with notation of the standard impacted, discussion of the significance of the condition, a summary of the Grantee's proposed corrective actions and evaluations thereof.

Significant Deficiencies

1. No Documented NTD Preparation and Review Process

Condition

Documentation supporting service data is accumulated manually by one individual and financial data is not reviewed by the Financial Manager.

Standard Impacted

49 CFR, 18.20(b) (1) *Financial Reporting.* "Grantees must have procedures to provide reasonable *assurance that "accurate, current, and complete disclosure of the financial results of financially* assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

Circular 5010.1D, Chapter VI, Section 2(e) (1) (e) states, "Written operating procedures must exist and be simply stated, yet meet the grantee's operating, legal, and regulatory." requirements.

Recommendation

NCRTD should develop and implement comprehensive procedures covering preparation, review, and filing the NTD.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

During our review, we noted that the preparation of the NTD lacked coordination between the Service Development Manager and the Financial Manager. In addition there was no review process before it was submitted to the FTA nor was there any supporting documentation included in the most recent filing.

Summary of Grantee's Response

The Financial Manager and the Service Development Manager will be working on procedures for the NTD reporting. Currently the NCRTD does not have any staff member assigned to grant assignments, the work is bifurcated and several staff has responsibility for different portions of the process. The procedure will clearly state what staff position handles what part of the reporting and the final step will be the Executive Director who will approve the reports prior to being submitted to the proper entity.

Evaluation of Grantee's Response

The grantee's response is inadequate. The response does not provide a specific roadmap addressing our recommendation in the corrective action plan.

Significant Deficiencies

2. Fixed Assets Inventory Procedures not Adequate

Condition

Fixed asset inventory is not independently verified by a person other than the individual counting the inventory.

Standard Impacted

49 CFR, 18.20(b) (3) *Internal Control*. "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, 49 CFR§18.32(d) requires that grantees and subgrantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedure are implemented for such assets.

Circular 5010.1D, Chapter VI, Section 2(d) (5) states, "The following objectives and standards facilitate the grantee's use of internal controls: Adoption of internal control policies, plans and procedures that reasonably ensure their effectiveness, such as organizational separation of duties."

Circular 5010.1D, Chapter IV, Section 3(k) (5) states, "A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of project property. Any loss, damage, or theft must be investigated and documented by the grantee."

Recommendation

NCRTD should supplement inventory procedures to require that the count be verified by someone other than the custodian taking the count, as well as the person responsible for making any necessary adjustments to the general ledger.

This recommendation should be implemented within 60 days from the date of this report.

Discussion

The most recent inventory count sheets by custodians were not reviewed or approved by an individual other than the one physically counting the inventory.

Significant Deficiencies

Summary of Grantee's Response

The NCRTD is in the process of implementing a fixed asset module as part of the accounting software. The NCRTD is also in the process of creating an inventory/fixed asset policy and procedures. This policy will provide guidance on the required submittals when fixed assets or inventory items are purchased and how to account for transfers between staff and the disposal process.

With respect to NCRTD not having a second person verifying inventory; this process has been changed by the NCRTD. The next inventory count is due by June 30, 2012 and every employee will verify their inventory, and an independent staff person will also verify the inventory. All inventory sheets will be submitted to Finance who will then review the inventory lists as well and the Executive Director will review and sign the "Inventory Certification" form that is required by the state auditors.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

3. Preventive Maintenance not Performed Timely

Condition

Preventive maintenance (PM) work is not being performed within the stated intervals in the maintenance plan.

Standards Impacted

49 CFR, 18.20(b) (3) *Internal Control.* Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, 49 CFR§18.32(d) requires that grantees and subgrantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedure are implemented for such assets.

Circular 5010.1D, Chapter IV, Section 3 (m) Maintenance. The grantee agrees to maintain project property in good operating order and in compliance with any applicable Federal regulations or directives that may be issued, except to the extent that FTA determines otherwise in writing. The grantee agrees to keep satisfactory records pertaining to the use of project property, and to submit to FTA upon request such information as may be required to assure compliance with Federal requirements. The grantee is required to have a written vehicle maintenance plan and facility/equipment maintenance plan. These plans should describe a system of periodic inspections and preventive maintenance to be performed at certain defined intervals.

Recommendation

NCRTD should enhance scheduling procedures to ensure that planned PM intervals are not missed.

This recommendation should be implemented within 90 days from the date of this report.

Discussion

During our review, we noted that the maintenance manual for NCRTD provided for scheduled maintenance in intervals of 5000 miles. Based on testing of several intervals on five FTA funded vehicles, only 73% (8 of 11) of the PM's were performed on time.

Significant Deficiencies

Summary of Grantee's Response

The grantee plans to revise the Fleet Maintenance Program, Pages 4 & 5, Preventative Maintenance Management: Standard Operating Procedures;

Types of Services identified and "A,B,C,D,E,F,G" Services i.e.

Interval	Associated Service
5,000	"A" Service Engine oil and filter service, tire rotation and multi-point inspection
15,000	"B" Service replace fuel filter/air filter
50,000	"C" Service transmission fluid and filter service
100,000	"D" Service power steering fluid/filter service
120,000	"E" Service diesel particulate filter
150,000	"F" Service anti-freeze/coolant service
200,000	"G" Service rear axle

Revision of Fleet Management Program, Page 17, Preventative Maintenance Management: Standard Operating Procedures;

Item 2, each driver records beginning, ending and total mileage for the route on that day's Vehicle Pre-Trip Inspection form.

Item 4, each day, maintenance staff reviews prior day's ending mileage on Vehicle Pre-Trip Inspection for each vehicle and records it on the fleet inventory service board, and prepares Service Repair Work Orders to schedule services for each vehicle on or before the service due mileage. Work is scheduled in-house or out-sourced as needed to meet the maintenance deadlines and intervals.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

4. **No Dispute Resolution Policy**

Condition

NCRTD does not have a specific policy for handling pre-award and post-award disputes.

Standard Impacted

Circular 4220.1F, Chapter VII, Section (1) a (1) Protest Procedures. Apart from other methods the recipient may have to resolve third party contract issues, such as mediation or arbitration, the Common Grant Rule for governmental recipients requires the recipient to have protest procedures. While the Common Grant Rule for non-governmental recipients does not impose a similar requirement on a non-governmental recipient, FTA expects each recipient to have appropriate written protest procedures, as part of its requirement to maintain or acquire adequate technical capacity to implement the project.

Recommendation

NCRTD should establish and implement a policy outlining pre-award and post-award protest procedures for resolving disputes related to the procurement process and contract administration.

This recommendation should be implemented within 90 days from the date of this report.

Discussion

During our review and discussion with the Financial Manager, NCRTD has experienced no disputes nor does it have a vendor dispute process. A clear understanding by vendor as well as NCRTD of how issues are to be reported, analyzed, appealed, and reported is necessary to avoid potential dispute conflicts.

Grantee's Response

The NCRTD is currently working on updating its procurement policies. The dispute resolution will be part of this policy.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

5. Construction Problems and Change Orders not Reported to the FTA

Condition

Construction at the new Administration Building has encountered several problems, which have resulted in change orders without notifications to the FTA.

Standard Impacted

49 CFR, 18.20(b) (1) *Financial Reporting.* "Grantees must have procedures to provide reasonable *assurance that "accurate, current, and complete disclosure of the financial results of financially* assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

49 CFR, 18.30 *Project Change Accounting.* The grantee's project financial accounting systems must be able to document and track project changes that result in the need for additional funds, a revision in the scope or objectives of the project, or a need to extend the period of availability of funds or any other changes or budgetary transfers which would require the prior written approval of FTA.

Circular 5010.1D, Chapter III, Section (3) (c) Milestone/Progress Reports. The MPR must be submitted for all active/executed grants. The requirement for a MPR applies to all FTA grants covered by this circular. The MPR is the primary written communication between the grantee and FTA. This report should be submitted electronically in TEAM. If only operating assistance is included in the grant, the reporting requirements are limited to the estimated and actual dates when all funding has been expended. Each MPR must include the following data as appropriate:
(1) Current status of each open ALI within the active/executed grant.
(2) A narrative description of projects, status, any problems encountered in implementation, specification preparation, bid solicitation, resolution of protests, and contract awards.
(3) Detailed discussion of all budget or schedule changes.
(4) The dates of expected or actual requests for bid, delivery, etc.
(5) Actual completion dates for completed milestones.
(6) Revised estimated completion dates when original estimated completion dates are not met.
(7) Explanation of why scheduled milestones or completion dates were not met.
Identification of problem areas and narrative on how the problems will be solved. Discussion of the expected impacts and the efforts to recover from the delays.
(8) Analysis of significant project cost variances. Completion and acceptance of equipment and construction or other work should be discussed, together with a breakout of the costs incurred and those costs required to complete the project. Use quantitative measures, such as hours worked, sections completed, or units delivered.
(9) A list of all outstanding claims exceeding $100,000, and all claims settled during the reporting period. This list should be accompanied by a brief description, estimated costs, and the reasons for the claims.

Significant Deficiencies

(10) A list of all potential and executed change orders and amounts exceeding $100,000, pending or settled, during the reporting period. This list should be accompanied by a brief description.

Recommendation

NCRTD should adopt procedures to adequately report the ongoing status of construction projects including potential change orders to the FTA.

This recommendation should be implemented within 30 days from the date of this report.

Discussion

On the new Admin Building project, NCRTD approved a change order and increase in the budget for $250,000 to cover pavement of the access road to NCRTD property; base course implementation to reduce stresses from buses for the bus storage area; board room divider; wire mesh for security purposes; and funds earmarked for small change orders. Further required changes related to an excessive moisture problem and change to the elevation at the south east corner of the drainage channel are currently estimated to be $400,000. Although these costs are expected to be paid from the Grantee's local funds such as the Gross Receipts Tax (GRT) and Los Alamos Contribution, no communication/reporting of these issues has been provided to the FTA.

Summary of Grantee's Response

The change orders incurred to date will be reported to the FTA.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

6. Cash Account Reconciliation Process not Complete

Condition

Cash accounts between book and bank balances have not been reconciled.

Standard Impacted

49 CFR, 18.20(b) (1) *Financial Reporting*. "Grantees must have procedures to provide reasonable *assurance that "accurate, current, and complete disclosure of the financial results of financially* assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

49 CFR, 18.20(b) (3) *Internal Control*. "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets."

Circular 5010.1D, Chapter VI, Section 2 (a) Internal Controls. "Internal controls are the organization plan, methods, and procedures adopted by the grantee to ensure that effective control and accountability is maintained for all grants and subgrants, cash, real and personal property, and other assets. Grantees and subgrantees must ensure that resources are properly used and safeguarded, and that they are used solely for authorized purposes.

Recommendation

NCRTD should perform a complete analysis of the entire difference between the general ledger and the balance as reflected on the bank statement.

This recommendation should be implemented within 30 days from the date of this report.

Discussion

Cash reconciliations are carrying an item labeled suspense which is basically unidentified differences from prior periods. This amount has been reduced from approximately $15,000 to approximately $10,000, but has not been fully researched and resolved.

Significant Deficiencies

Summary of Grantee's Response

The Financial Manager researched each item and has cleared the items from the "suspense tab" and corrected the entry; the un-reconciled difference is now $1,035.99. The Financial Manager is currently researching these items which appear to be related to entries from the financial software conversion that occurred in 2010. Staff will continue to research and correct this variance.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

7. Accounting Procedures Are Fragmented

Condition

Multiple accounting desk procedure documents exist for various functional areas of Finance; however, in the aggregate they do not represent a comprehensive Accounting Manual.

Standard Impacted

49 CFR 18.20(b) (1) *Financial Reporting* states, "Grantees must have procedures to provide reasonable assurance that "accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

Circular 5010.1D, Chapter VI, Section 2(e) (1) (h) states, "All personnel must be properly qualified for their assigned responsibilities, duties, and functions. Education, training, experience, competence and integrity should be considered in assigning work. All must be held fully accountable for the proper discharge of their assignments."

Recommendation

NCRTD should identify required accounting controls and consolidate accounting procedures into a manual covering all aspects of recording and reporting financial information. We also recommend these procedures be kept current with documented version control indicating the specific areas that have changed and effective dates of those changes.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

We noted that areas of accounting such as accounts payable and payroll have several documents for individual activities within the aforementioned areas. These documents are in various levels of detail, but generally do not provide a complete description of the controls necessary for complete and accurate processing of each transaction cycle. Specifically, there is no procedure indicating the necessary steps involved in a formal closing process on a periodic basis. Such steps would include among other things, standard journal entries, accruals, account reconciliations, and reconciliation of general ledger control accounts to subsidiary records. In addition, the manual should identify required reports, due dates, and any unique preparation instructions.

Significant Deficiencies

Summary of Grantee's Response

The Financial Manager has been working with staff to create desk manuals. These desk manuals will be part of the NCRTD accounting manual. This accounting manual will encompass all aspects of the financial section and will have procedures and forms.

Evaluation of Grantee's Response

The grantee's response is adequate if the result is the development of a singular comprehensive accounting manual addressing all of the accounting processes.

Significant Deficiencies

8. Record Retention Policies are Incomplete

Condition

Record Retention Policies do not address the Common Rule Grant Requirements

Standard Impacted

49 CFR, 18.20(b) (2) *Accounting Records.* "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income."

Circular 5010.1D, Chapter III, Section 7 (b) Length of Retention Period.
(1) Except as otherwise specified, records must be retained for three years from the starting date specified in Chapter III, Subsection 7.c., below.
c. Starting Date of Retention Period.
(1) General. The starting date for retention of records related to multi-year projects is the date of submission of the final FSR upon project completion or, if waived, the date it would have been due.
(2) Equipment Records. The three year retention period for the equipment records starts from the date of the equipment's disposition or replacement or transfer at FTA's direction.

Recommendation

NCRTD should develop and implement formal retention policies that specifically address FTA requirements.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

Per review and discussion with the Financial Manager, there is nothing in the Records and Email Retention Policy and Disposition Schedule identifying the time records must be maintained from the date a project is completed when a grant is closed out.

Significant Deficiencies

Grantee's Response

The NCRTD has recently hired a Public Information Officer who is currently reviewing the Record Retention Policy and has incorporated the FTA requirements. This policy amendment is being presented to the Board of Directors at its July meeting for approval.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

9. Data Fields in Fixed Asset Records are Missing

Condition

NCRTD's Asset Management record does not include the percentage of federal participation; grant project and title holder fields.

Standard Impacted

49 CFR 18.20(b) (3) *Internal Control* states, "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, 49 CFR §18.32(d) requires that grantees and subgrantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition use, or disposition of the property, and that maintenance procedures are implemented for such assets.

Circular 5010.1D, Chapter IV, Section 3(k) (3) states, "Equipment records must be maintained by the grantee." Records must include: (a) a description of the asset, (b) identification number, (c) source of property (the grant project number under which it was procured), (d) acquisition date, (e) cost, (f) percentage of Federal participation in the cost, (g) location, (k) who holds title to the equipment including rolling stock.

Circular 5010.1D, Chapter IV, Section 3(k) (5) states, "A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of project property. Any loss, damage, or theft must be investigated and documented by the grantee."

Recommendation

NCRTD should add the FTA required fields that are missing to its fixed asset record system.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

NCRTD uses a spreadsheet as its detailed fixed asset record. This record includes many, but not all of the FTA required fields. Although other documents/spreadsheets contain some of the missing information, it is difficult to identify assets on the primary spreadsheet with data on the additional spreadsheets. Thus, all the required information for each asset is not available in a readily accessible manner or in one document.

Significant Deficiencies

Summary of Grantee's Response

NCRTD feels this is duplicative of the comment contained with the FTA Reviewers comments pertaining to Fixed Assets Inventory Procedures not being Adequate. In their response to Significant Deficiency #2, the grantee indicated they are in the process of implementing a fixed asset module as part of the accounting software. The NCRTD is also in the process of creating an inventory/fixed asset policy and procedures.

Evaluation of Grantee's Response

The grantee's response is adequate. However, since no implementation date was identified, the grantee shall commit to a deadline for full completion and use of the Fixed Asset module within the recommended time frame.

Significant Deficiencies

10. Vendor Invoices Not Logged Upon Receipt

Condition

NCRTD does not require vendors to mail accounts payable invoices to the accounting department to be posted to the appropriate accounting ledger.

Standard Impacted

49 CFR, 18.20(b) (1) *Financial Reporting.* Grantees must have procedures to provide reasonable *assurance that "accurate, current, and complete disclosure of the financial results of financially* assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

49 CFR, 18.20(b) (2) Accounting Records. "Grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system

Circular 5010.1D, Chapter VI, Section 2(d) (5) states, "The following objectives and standards facilitate the grantee's use of internal controls: Adoption of internal control policies, plans and procedures that reasonably ensure their effectiveness, such as organizational separation of duties."

Recommendation

Invoices for goods and services that require approval should be logged upon receipt before being routed for appropriate approvals. This would ensure that all expenditures would be included for purposes of proper reporting to FTA on an accrual basis.

This recommendation should be implemented within 120 days from the date of this report.

Significant Deficiencies

Discussion

During our review, we noted invoices for goods and services that cannot be processed by accounts payable through a "three way" match of the invoice to receiving reports and purchase orders are currently received directly by the personnel responsible for approval. These invoices may linger in the approving requisitioner's area for periods of time resulting in incurred expenses being unpaid and not accrued in the accounts payable ledger.

Summary of Grantee's Response

Once the NCRTD relocates to its new Transit Center, operations will be centralized. As a result, mail will be received at one location and will be opened and processed by the Executive Assistant. The Executive Assistant will create a log for her incoming mail and any invoices will be part of this.

Evaluation of Grantee's Response

Grantee's response is adequate.

Significant Deficiencies

11. **Ineffective Actual to Budget Variance Analysis**

Condition

Line item variances are addressed only when year to date expenditures exceed the annual budget amount.

Standard Impacted

49 CFR, 18.20(b) (4) *Budget Control.* "Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement"

Recommendation

NCRTD should develop variance analysis criteria sufficient to monitor performance and implement necessary action before line item budgets are exceeded.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

Budget line item variance analysis is limited to situations where the annual budget amount is exceeded. This approach does not provide for effective performance analysis on a timely basis.

Summary of Grantee's Response

The budget is a planning tool. The District carefully monitors federal grants differently due to their impact upon our overall budget and the District's accounting software tracks these as appropriate. District policy does not require that expenditures remain strictly within the budgeted line item amount, however the District does employ best practices and for the most part variances within budgeted line items are minimal. In addition, budgeted categories (Administration, Operating and Capital) within the budget are strictly adhered to unless adjusted by the Executive Director. The District does not by practice move budget between line items. By avoiding such a practice it allows the District to ascertain at the end of the year, when planning for the next year's budget what line items need to be researched and adjusted during the next budget cycle.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

12. Single Audit Findings Not Filed Timely

Condition

The Single Audit report for the year ended June 30, 2011, was filed with the Single Audit Clearinghouse (SAC) more than 30 days after the report was issued.

Standard Impacted

49 CFR, 18.20 (b) (1) *Financial Reporting.* Grantees must have procedures to provide reasonable *assurance that "accurate, current, and complete disclosure of the financial results of financially* assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

OMB Circular A-133, Section 320 (a) requires the audit shall be completed and submitted within the earlier of 30 days after receipt of the auditor's report(s), or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audit.

Recommendation

NCRTD should establish a process to ensure that Single Audit findings are filed on a timely basis.

This recommendation should be implemented within 30 days from the date of this report.

Discussion

NCRTD's Single Audit report for the fiscal year ended June 30, 2011, was filed with the SAC on February 17, 2012 after being approved by the Board on January 6, 2012. Under OMB Circular A-133 requirements, submission of the report should have been no later than February 5, 2012.

Grantee's Response

The Financial Manager talked with its Auditors and they had the understanding that the Audit report had to be filed within 60 days of the audit being released by the State Auditor. As a result and if this had been correct the Audit was timely filed. In the future the Financial Manager will monitor and track this and work with the outside auditors to ensure it is filed as required by the FTA.

Evaluation of Grantee's Response

The grantee's response is adequate.

Significant Deficiencies

13. Insufficient Information Technology Physical and Application Access Security Controls

Condition

Physical security of the current Network Server location is inadequate and employees have access to more than one aspect of a transaction in the accounting system.

Standard Impacted

49 CFR, 18.20(b) (3) Internal Control. "Effective control and accountability must be maintained for all grant and sub grant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, 49 CFR§18.32(d) requires that grantees and sub grantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or sub grant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedure are implemented for such assets

49 CFR, 18.20(b) (2) Accounting Records. "Grantees and sub grantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or sub grant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system

Circular 5010.1D, Chapter VI, Section 2(d) (5) states, "The following objectives and standards facilitate the grantee's use of internal controls: Adoption of internal control policies, plans and procedures that reasonably ensure their effectiveness, such as organizational separation of duties."

Recommendation

NCRTD should relocate the Network Server to a limited access area with appropriate security/protection controls and procedures.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

Although NCRTD recognizes that the current physical security over the server has numerous flaws, they are not expected to be address until they move to the new facility. Although logical security in terms of access to certain applications is influenced by the limited size of the accounting staff, all 3 personnel have edit capabilities in the Purchase Order (PO), Accounts Payable (AP), and Payroll modules of the Sage accounting system which does not represent optimal segregation of duties.

Significant Deficiencies

Summary of Grantee's Response

The access and security for the IT server will be addressed when the District relocates to its new Transit Center in July 2012.

With respect to the comments regarding controls over the accounting software, the Financial Manager is looking into this matter to ascertain how this comment can be addressed.

Evaluation of Grantee's Response

The grantee's response is inadequate, as no corrective action plan was submitted that completely addresses the recommendation above.

Section IV

Advisory Comments

Advisory Comments

For purposes of this review, an advisory comment represents a minor control deficiency in the design or operation of the financial management system that is not significant enough to adversely affect NCRTD's ability to record, process, summarize, and report financial and related data consistent with the requirements of 49 CFR 18.20.

The advisory comments presented in this section represent matters that came to our attention during the course of the review, and are offered to NCRTD's management as an opportunity for improvement. The advisory comments are provided along with recommendations and discussion of the significance of the comments.

Advisory Comments

1. Budget Policies/Procedures not Formalized with Underlying Assumptions Documented

Condition

Key assumptions underlying annual and multi-year budget proposals and submissions (e.g. increases/decreases in ridership, fuel costs, wage agreements/rates etc.) are not documented.

Recommendation

NCRTD should document the budget development, approval and performance monitoring process including key assumptions underlying the budgeted amounts.

This recommendation should be implemented within 120 days from the date of this report.

Discussion

During our review of documents and discussions with the Financial Manager, budgets and interim financial statements are prepared on a cash basis although the fiscal year (FY) 2011 Budget has "accrual" in the title. The FY 2012 Budget has a discrepancy with regard to the total for the State and local portions compared to the total Budget. For FY2013, the Financial Manager will prepare Department budgets for Finance Administration, Operations and Fleet/Building with input from employees responsible for each Department, but the process is basically a "work in progress".

Grantee's Response

The District has completely revamped its budget process for the development of the fiscal year 2012 budget. Staff is in the process of creating a procedure for how the budget is compiled each year. The procedure will be document the basis of the projections and analysis that was conducted.

Section V

Exhibit

Exhibit

Summary Findings

Summary Findings-Material Weakness

Findings Reference	Findings	Standard Impacted	Recommendations	Corrective Actions Implementation Date
Material Weakness	No Ethics/Conflict of Interest Policy Covering Employees	49 CFR, 18.36(b (3) *Procurement Standards.* Circular 4220.1F, Chapter III, Section (1) Written Standards of Conduct	NCRTD should adopt a conflict of interest policy to distribute to employees and obtain acknowledgement that anyone associated with the procurement process has reviewed the policy on a periodic basis.	Within 30 days from receipt of report.
Material Weakness	Incomplete Procurement Records for Major Purchases	49 CFR, 18.20(b) (6) *Source Documentation.* Circular 4220.1F, Chapter III, Section 3d (1) Procurement History.	NCRTD should establish procedures to ensure that all required information is documented and maintained in the procurement file. NCRTD must exercise great care to ensure that procurement files for contracts that are federally funded are complete and available for audit for the required record retention period. If information is removed from completed procurement files, procedures must be in place to document for individual responsible for the document and its location.	Within 60 days from receipt of report.
Material Weakness	Inadequate Control over the ECHO Drawdown Process	49 CFR, 18.20(b) (2) *Accounting Records.* Circular 5010.1D, Chapter VI, Section 2(d) (5). Circular 5010. 1D, Chapter VI, Section 9(c) Policy for ECHO Payments	NCRTD must ensure that adequate segregation of duties exists over the preparation, review and approval, submission, and recording of ECHO drawdown's to reduce the risk of error or unauthorized drawdown's.	Within 60 days from receipt of report.

Summary Findings-Material Weakness

Fin2dings Reference	Findings	Standard Impacted	Recommendations	Corrective Actions Implementation Date
Material Weakness	No Documented FFR Preparation and Review Process	49 CFR, 18.20(b) (1) *Financial Reporting.* 49 CFR, 18.20(b) (2) *Accounting Records.* Circular 5010.1D, Chapter III, Section 3(b) Financial Status Report (FSR.) Circular 5010.1D, Chapter VI, Section 2(e) (1) (e).	NCRTD should develop and implement a comprehensive procedure covering preparation, review, and filing of the FFR.	Within 60 days from receipt of report.
Material Weakness	Inadequate Accounts Payable Processing Procedures	49 CFR, 18.20(b) (2) *Accounting Records.* 49 CFR, 18.20(b) (3) *Internal Control.*	NCRTD should develop and implement a voucher checklist which clearly indicates responsibility and completion of applicable review functions.	Within 60 days from receipt of report.

Summary of Findings-Significant Deficiencies

Findings Reference	Findings	Standard Impacted	Recommendations	Corrective Actions Implementation Date
Significant Deficiency	No Documented NTD Preparation and Review Process	49 CFR, 18.20(b) (1) *Financial Reporting*. Circular 5010.1D, Chapter VI, Section 2(e) (1) (e).	NCRTD should develop and implement a comprehensive procedure covering preparation, review, and filing the NTD.	Within 120 days from receipt of report.
Significant Deficiency	Fixed Assets Inventory Procedures not Adequate	49 CFR, 18.20(b) (3) *Internal Control*. Circular 5010.1D, Chapter VI, Section 2(d) (5). Circular 5010.1D, Chapter IV, Section 3(k) (5).	NCRTD should supplement inventory procedures to require that the count be verified by someone other than the custodian taking the count as well as the person responsible for making any necessary adjustments to the general ledger.	Within 60 days from receipt of report.
Significant Deficiency	Preventive Maintenance not Performed Timely	49 CFR, 18.20(b) (3) *Internal Control*. Circular 5010.1D, Chapter IV, Section 3 (m) Maintenance.	NCRTD should enhance scheduling procedures to ensure that planned PM intervals are not missed.	Within 90 days from receipt of report.

Summary Findings- Significant Deficiencies

Findings Reference	Findings	Standard Impacted	Recommendations	Corrective Actions Implementation Date
Significant Deficiency	No Dispute Resolution Policy	Circular 4220.1F, Chapter VII, Section (1) a (1) Protest Procedures.	NCRTD should establish and implement a policy outlining pre-award and post-award protest procedures for resolving disputes related to the procurement process and contract administration.	Within 90 days from receipt of report.
Significant Deficiency	Construction Problems and Change Orders not Reported to the FTA	49 CFR, 18.20(b) (1) *Financial Reporting.* 49 CFR, 18.30 *Project Change Accounting.* Circular 5010.1D, Chapter III, Section (3) (c) Milestone/Progress Reports.	NCRTD should adopt procedures to adequately report the ongoing status of construction projects including potential change orders to the FTA.	Within 30 days from receipt of report.
Significant Deficiency	Cash Account Reconciliation Process not Complete	49 CFR, 18.20(b) (1) *Financial Reporting.* 49 CFR, 18.20(b) (3) *Internal Control.* Circular 5010.1D, Chapter VI, Section 2 (a) Internal Controls.	NCRTD should perform a complete analysis of the entire difference between the general ledger and the balance as reflected on the bank statement.	Within 30 days from receipt of report.

Summary of Findings-Significant Deficiencies

Findings Reference	Findings	Standard Impact	Recommendations	Corrective Actions Implementation Date
Significant Deficiency	Accounting Procedures Are Fragmented	49 CFR 18.20(b) (1) *Financial Reporting.* Circular 5010.1D, Chapter VI, Section 2(e) (1) (h).	NCRTD should identify required accounting controls and consolidate accounting procedures into a manual covering all aspects of recording and reporting financial information. We also recommend these procedures be kept current with documented version control indicating the specific areas that have changed and effective dates of those changes.	Within 120 days from receipt of report.
Significant Deficiency	Record Retention Policies are Incomplete	49 CFR, 18.20(b) (2) *Accounting Records.* Circular 5010.1D, Chapter III, Section 7 (b) Length of Retention Period.	NCRTD should develop and implement formal retention policies that specifically address FTA requirements.	Within 120 days from receipt of report.
Significant Deficiency	Data Fields in Fixed Asset Records are Missing	49 CFR 18.20(b) (3) *Internal Control.* Circular 5010.1D, Chapter IV, Section 3(k) (3). Circular 5010.1D, Chapter IV, Section 3(k) (5).	NCRTD should add the FTA required fields that are missing to its fixed asset record system.	Within 120 days from receipt of report.

Summary of Findings-Significant Deficiencies

Findings Reference	Findings	Standard Impact	Recommendations	Corrective Actions Implementation Date
Significant Deficiency	Vendor Invoices Not Logged Upon Receipt	49 CFR, 18.20(b) (1) *Financial Reporting.* 49 CFR, 18.20(b) (2) *Accounting Records* Circular 5010.1D, Chapter VI, Section 2(d) (5).	Invoices for goods and services that require approval should be logged upon receipt before being routed for appropriate approvals. This would ensure that all expenditures would be included for purposes of proper reporting to FTA on an accrual basis.	Within 120 days from receipt of report.
Significant Deficiency	Ineffective Actual to Budget Variance Analysis	49 CFR, 18.20(b) (4) *Budget Control.*	NCRTD should develop variance analysis criteria sufficient to monitor performance and implement necessary action before line item budgets are exceeded.	Within 120 days from receipt of report.
Significant Deficiency	Single Audit Findings Not Filed Timely	49 CFR, 18.20 (b) (1) *Financial Reporting.* OMB Circular A-133, Section 320 (a).	NCRTD should establish a process to ensure that single audit findings are filed on a timely basis.	Within 30 days from receipt of report.
Significant Deficiency	Insufficient Information Technology Physical and Application Access Security Controls.	49 CFR, 18.20 (b) (3) *Internal Control* 49 CFR, 18.20(b) (2) *Accounting Records.* Circular 5010.1D, Chapter VI, Section 2(d) (5).	NCRTD should relocate the Network Server to a limited access area with appropriate security/protection controls and procedures.	Within 120 days from receipt of report.

Summary of Findings-Advisory Comments

Findings Reference	Findings	Standard Impact	Recommendations	Corrective Actions Implementation Date
Advisory Comment	Budget Policies/Procedures not Formalized with Underlying Assumptions Documented	Not applicable	NCRTD should document the budget development, approval and performance monitoring process including key assumptions underlying the budgeted amounts.	Not applicable

Section VI

Criteria Established By FTA for Grantee's Financial Management Systems

Criteria Established By FTA for Grantee's Financial Management Systems

The following criteria have been set forth by FTA standards for the financial management systems of FTA grantees. Unless otherwise noted these criteria are drawn from 49 CFR Part 18 "Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments" (Common Rule), Section 18.20 "Standards for Financial Management Systems." Additional guidance for applying many of these criteria is provided in various circulars issued by FTA, U.S. Department of the Treasury, and the Office of Management and Budget (OMB).

18.20(b) (1) ***Financial Reporting***. Grantees must have procedures to provide reasonable assurance that "accurate, current, and complete disclosure of the financial results of financially assisted activities [are] made in accordance with the financial reporting requirements of the grant or subgrant."

18.20(b) (2) ***Accounting Records***. "Grantees and subgrantees must maintain records which adequately identify the source and application of funds provided for financially-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income." The grantee's project financial accounting system must interface with the grantee's overall financial management system.

18.20(b) (3) ***Internal Control***. "Effective control and accountability must be maintained for all grant and subgrant cash, real and personal property, and other assets." Specifically with respect to fixed asset records, 49 CFR§18.32(d) requires that grantees and subgrantees must maintain a fixed asset control system providing detailed property records for assets acquired under a grant or subgrant, and including procedures to provide reasonable assurance that safeguards are present to prevent or detect unauthorized acquisition, use, or disposition of the property, and that maintenance procedure are implemented for such assets.

18.20(b) (4) ***Budget Control.*** "Actual expenditures or outlays must be compared with budgeted amounts for each grant or subgrant. Financial information must be related to performance or productivity data, including the development of unit cost information whenever appropriate or specifically required in the grant or subgrant agreement"

18.20(b) (5) ***Allowable Cost***. Grantees must have procedures to provide reasonable assurance that the cost principles of OMB Circular A-87, incorporated within 49 CFR §18.22, "agency program regulations, and the terms of grant and subgrant agreements will be followed in determining the reasonableness, allowability, and allocability of costs." If indirect cost are being charged to the grant, Grantees must prepare a cost allocation plan that is approved by its cognizant agency.

Criteria Established By FTA for Grantee's Financial Management Systems

18.20(b) (6) ***Source Documentation.*** " Accounting records must be supported by such source documentation as cancelled checks, paid bills, payrolls, time and attendance records, contract and subgrant award documents, etc. "

18.20(b) (7) ***Cash Management.*** "Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and subgrantees must be followed whenever advance payment procedures are used. Grantees must established reasonable procedures to ensure the receipt of reports on subgrantees' cash balances and cash disbursements in sufficient time to enable them to prepare complete and accurate cash transactions reports to the awarding agency. When advances are made by letter-of-credit or electronic transfer of funds methods, the grantee must make [cash] drawdowns as close as possible to the time of making disbursements. Grantees must monitor cash drawdowns by their subgrantees to assure that they conform substantially to the same standards of timing and amount as apply to advances to the grantees."

18.30 ***Project Change Accounting.*** The grantee's project financial accounting systems must be able to document and track project changes that result in the need for additional funds, a revision in the scope or objectives of the project, or a need to extend the period of availability of funds or any other changes or budgetary transfers which would require the prior written approval of FTA.

Section VII

Grantee's Response (Full Text)

June 22, 2012

Mr. Abel Ayala
Federal Transit Administration
819 Taylor Street 8A36
Fort Worth, TX 76102

Dear Mr. Ayala:

Following please find the North Central Regional Transit District responses to the Financial Management Overview Review that was recently performed by your auditors.

Material Weaknesses

1. **No Ethics/Conflict of Interest Policy Covering Employees**

Grantee's Response

The NCRTD is in the process of updating is Personnel Policies and Procurement Rules which will be presented to the Board of Directors in July and August for their approval. These documents will contain an Ethics/Conflict of Interest Policy statement.

Upon adoption of the new Personnel Policies and Procurement Rules all staff will be given copies and they will be required to attest to this conveyance of the policies and the Districts expectations that they will abide by them.

2. **Incomplete Procurement Records for Major Purchases**

Grantee's Response

The NCRTD is in the process of updating is procurement policy and specific direction will be provided to staff on what processes need to be followed. The procurement policies are anticipated to be presented to the Board of Directors in August/September for their approval.

Due to the small size of the NCRTD, the District does not have a procurement staff assigned to these duties. The Executive Director is considering a reorganization that will provided for consolidation of procurement responsibilities.

Daniel Barrone
Chairman

Anthony J. Mortillaro
Executive Director

Governmental
Board of Directors

City of Espanola

City of Santa Fe

County of Rio Arriba

County of Santa Fe

County of Los Alamos

County of Taos

Pueblo of Ohkay Owingeh

Pueblo of Santa Clara

Pueblo of Pojoaque

Pueblo of Tesuque

Pueblo of San Ildefonso

3. **Inadequate Control over the ECHO Drawdown Process**

Grantee's Response

The NCRTD is of the opinion that this item has been addressed. Based upon conversations the Financial Manager had with FTA reviewers, the process has been modified to align with this recommendation. A reconciliation/approval form has been developed. The process involves the Financial Manager compiling all payment packets for the grants that a reimbursement request is being processed for. The Financial Manager will then complete the reconciliation/approval form and attaches all the documentation (payment packs, reports from Accounting Software) to confirm the amount being requested for reimbursement is correct. The Executive Director then reviews and approves the drawdown request.

As for the comment from the Reviewer's regarding immediate disbursement of federal funds within 3 days, it is the NCRTD opinion that this does not pertain to the District. The District operates on a reimbursement basis with the FTA, therefore we are required to expend the funds prior to being eligible for reimbursement from the FTA.

In addition, the NCRTD does not experience frequent reimbursement drawdown requests. The Financial Manager monitors these grants as payment packets are prepared for approval. The drawdown request is then prepared for the incurred expenses. If this process is not in line with FTA requirements a concise and approved process from FTA staff and the contracted Reviewers would be appreciated. Although the Financial Manager had been trained and instructed to perform quarterly reporting, conflicting information has been received that this should only occur on an annual basis for amounts under $1 million. Therefore, clarification is requested as to the applicability of whether quarterly or annual reporting is required when the amount to be reimbursed is below the $1 million threshold.

4. **Inadequate Accounts Payable Processing Procedures**

Grantee's Response

The NCRTD does not use the 3-part PO process and with limited staff it is unlikely that such a process will be implemented. However, the Finance Manager will review the current process and develop procedures to the extent feasible that may satisfy the FTA requirement but not result in additional staffing costs that are unwarranted at this time.

Significant Deficiencies

1. **No Documented NTD Preparation and Review Process**

Grantee's Response

The Financial Manager and the Service Development Manager will be working on procedures for the NTD reporting. Currently the NCRTD does not have anyone staff member assigned to grant assignments, the work is bifurcated and several staff has responsibility for different portions of the process. The procedure will clearly state what staff position handles what part of the reporting and the final step will be the Executive Director who will approve the reports prior to being submitted to the proper entity.

2. **Fixed Assets Inventory Procedures not Adequate**

Grantee's Response

The NCRTD is in the process of implementing a fixed asset module as part of the accounting software. Currently the District utilizes 3 spreadsheets that contain the fixed asset information. The Financial Manager is in the process of consolidating the 3 spreadsheets to make sure the NCRTD has all the proper information on one spreadsheet that will be contained within the fixed asset software module. The NCRTD is also in the process of creating an

inventory/fixed asset policy and procedures. This policy will provide guidance on the required submittals when fixed assets or inventory items are purchased and how to account for transfers between staff and the disposal process.

In respect to the comment indicating that the NCRTD does not have a second person verifying inventory; this process has been changed by the NCRTD. The next inventory count is due by June 30, 2012 and every employee will verify their inventory, and an independent staff person will also verify the inventory. All inventory sheets will be submitted to Finance who will then review the inventory lists as well and the Executive Director will review and sign the "Inventory Certification" form that is required by the state auditors.

3. Preventive Maintenance not Performed Timely

Grantee's Response

The NCRTD is not a direct recipient for the vast majority of the federal transit funds it receives. The NCRTD receives the bulk of its funds as a pass through via the State of New Mexico Department of Transportation (NMDOT). Therefore, it is our understanding that the NCRTD falls under the oversight of the NMDOT. As a result NCRTD follows NMDOT guideline for preventative maintenance. These NMDOT guidelines require that the NCRTD follow "the manufacturer's minimum requirements". Based upon this and a review of our records the District's on time record for performance service intervals was 90%. It is our belief that this performance metric places the NCRTD within NMDOT compliance standards.

However, the NCRTD is continually seeking to enhance its performance and upgrade its Standard Operating Procedures and will be undertaking the following corrections:

Revision of Fleet Maintenance Program, Pages 4 & 5, Preventative Maintenance Management: Standard Operating Procedures;

Types of Services identified and "A,B,C,D,E,F,G" Services i.e.

Interval	Associated Service
5,000	"A" Service Engine oil and filter service, tire rotation and multi-point inspection
15,000	"B" Service replace fuel filter/air filter
50,000	"C" Service transmission fluid and filter service
100,000	"D" Service power steering fluid/filter service
120,000	"E" Service diesel particulate filter
150,000	"F" Service anti-freeze/coolant service
200,000	"G" Service rear axle

Revision of Fleet Management Program, Page 17, Preventative Maintenance Management: Standard Operating Procedures;

Item 2, each driver records beginning, ending and total mileage for the route on that day's Vehicle Pre-Trip Inspection form.

Item 4, each day, maintenance staff reviews prior day's ending mileage on Vehicle Pre-Trip Inspection for each vehicle and records it on the fleet inventory service board, and prepares Service Repair Work Orders to schedule services for each vehicle on or before the service due mileage. Work is scheduled in-house or out-sourced as needed to meet the maintenance deadlines and intervals.

There is a future improvement planned to obtain and implement fleet management software that supports the Fleet Maintenance Program.

4. **No Dispute Resolution Policy**

Grantee's Response

The NCRTD is currently working on updating its procurement policies. The dispute resolution will be part of this policy.

5. **Construction Problems and Change Orders not Reported to the FTA**

Grantee's Response

It was unclear to the NCRTD staff that change orders were required to be reported to the FTA since the funding for the change orders was not federally funded. However, now that this has been clarified the change orders incurred to date have been submitted to the NMDOT.

6. **Cash Account Reconciliation Process not Complete**

Grantee's Response

At the time of the FTA Review the NCRTD Financial Manager had just completed 3 state audits in a nine month period. The Financial Manger acknowledges that there were suspense items that had not been researched nor cleared out. At the conclusion of the FTA review the Financial Manager made this a priority. It was discovered that the two previous Financial Managers did not appear to comprehend the process of cash reconciliation and instead of just leaving the amounts as "un-reconciled differences" they posted
these amounts to the "suspense items" in the reconciliation process thereby doubling the un-reconciled difference.

The Financial Manager researched each item and has cleared the items from the "suspense tab" and corrected the entry; the un-reconciled difference is now $1,035.99. The Financial Manager is currently researching these items which appear to be related to entries from the financial software conversion that occurred in 2010. Staff will continue to research and correct this variance.

7. **Accounting Procedures are Fragmented**

Grantee's Response

The NCRTD has never had an accounting manual. The Financial Manager has been working with staff to create desk manuals. These desk manuals will be part of the NCRTD accounting manual. This accounting manual will encompass all aspects of the financial section and will have procedures and forms.

8. **Record Retention Policies are Incomplete**

Grantee's Response

The NCRTD has recently hired a Public Information Officer who has reviewed the Record Retention Policy and has incorporated the FTA requirements. This policy amendment is being presented to the Board of Directors at its July meeting for approval.

9. **Data Fields in Fixed Asset Records are Missing**

Grantee's Response

NCRTD feels this is duplicative of the comment contained within the FTA Reviewers comments pertaining to Fixed Assets Inventory Procedures not being Adequate.

10. Vendor Invoices Not Logged Upon Receipt

Grantee's Response

As stated earlier the NCRTD does not have procurement or receiving staff. Currently the NCRTD is housed in 4 locations. It is virtually impossible to log these invoices since mail is currently sent to all locations.

Once the NCRTD relocates to its new Transit Center, operations will be co-located and as a result mail will come to one location and all mail will be opened and processed by the Executive Assistant. The Executive Assistant will create a log for incoming mail and any invoices will be part of this. Part of the current challenge is that the District utilizes a number of small vendors who tend to physical provide the receipt at the time that service is render. When a vehicle is repaired or necessary items have been purchased at local vendors these receipts get attached to the purchase request and then through interoffice mail sent to Santa Fe for payment.

The Financial Specialist does log all incoming mail received from Espanola so in an indirect way the invoices are logged.

The comment regarding a 3-part PO system contained in this comment was addressed in an earlier response.

11. Ineffective Actual to Budget Variance Analysis

Grantee's Response

The NCRTD performs a budget variance analysis each month. The Financial Manager may not have explained the process in enough detail to the FTA Reviewers. Each month the Financial Manager or Financial Analyst runs a budget report and reviews it for line items that are either overspent or are close to being overspent. When these types of variances are identified the Finance Staff then inquires of the operational division as to the nature of the variance and a plan to address or mitigate for this is developed.

The NCRTD does not budget by month. Monthly expenditures and year to date analysis are prepared and presented to the board each month. The monthly budgeted expenditures are depicted based upon one twelfth of the month being ideally expended, however due to seasonal expenditures and other circumstances, variances below or above the ideal expenditure level are expected.

The budget is a planning tool. The District carefully monitors federal grants differently due to their impact upon our overall budget and the District's accounting software tracks these as appropriate. District policy does not require that expenditures remain strictly within the budgeted line item amount, however the District does employ best practices and for the most part variances within budgeted line items are minimal. In addition, budgeted categories (Administration, Operating and Capital) within the budget are strictly adhered to unless adjusted by the Executive Director. The District does not by practice move budget between line items. By avoiding such a practice it allows the District to ascertain at the end of the year, when planning for the next year's budget what line items need to be researched and adjusted during the next budget cycle.

For Board purposes the budget is presented at a high level. For internal purposes the budget is monitored by grant to ensure the District does not over spend in this category. As finance staff runs its monthly reports the staff prepares modifications (correcting) entries if they find that expenditures were charged incorrectly.

12. Single Audit Findings Not Filed Timely

Grantee's Response

The Financial Manager talked with its Auditors and they had the understanding that the Audit report had to be filed within 60 days of the audit being released by the State Auditor. As a result and if this information had been correct the Audit was timely filed. In the future the Financial Manager will monitor and track this and work with the outside auditors to ensure it is filed as required by the FTA.

13. **Insufficient Information Technology Physical and Application Access Security Controls**

Grantee's Response

The access and security for the IT server will be addressed when the District relocates to its new Transit Center in late July 2012.

In respect to the comments regarding controls over the accounting software, the Financial Manager is looking into this matter to ascertain how this comment can be addressed. Due to the small staff it is imperative that the finance staff be capable of performing many functions of the various positions. The District has implemented a modification that ensures that that the Financial Manager has access and is the administrator of the Accounting Software. The Executive Director will serve as the Finance Manger's back up and the Financial Specialist and Financial Analyst will not have access any longer. In addition modifications have been made that do not allow the Financial Specialist and Financial Analyst to delete entries. A new form has been developed that requires a description as to why the entry needs to be deleted and the Financial Manager is the only one authorized to delete an entry. In addition a record will be maintained of the deletion performed by the Finance Manager. Currently all 3 members of the finance staff need to have posting capabilities. Since the District utilizes the encumbrance process the financial specialist and financial analyst must be able to post their encumbrances. Only the Financial Manager posts batches to print checks. The District is willing to review this process and review existing duties of each position as we consolidate staff into the new facility to ascertain how financial functions can be modified to better segregate these duties.

Advisory Comments

Comments are not required for this part but the District has chosen to respond.

1. **Budget Policies/Procedures not formalized with Underlying Assumptions Documented**

Grantee's Response

The District has completely revamped its budget process for the development of the fiscal year 2013 budget. Staff is in the process of creating a procedure for how the budget is compiled each year. The procedure will be document the basis of the projections and analysis that was conducted.

If you have any questions, please do not hesitate to contact me.

Sincerely,

Anthony J. Mortillaro
Executive Director

Cc: Kelly Muniz, Financial Manager, NCRTD
File

Memorandum

To: Finance Sub-committee
From: Anthony J. Mortillaro, Executive Director
CC:
Date: August 24, 2012
Re: **Revised Procurement Regulations**

Background: The existing Procurement Policies were adopted on August 14, 2007 by Board Resolution 2007-13. These rules and regulations have not been reviewed or modified since their adoption. Many state regulations have changed over the course of time and it is incumbent that our Procurement Regulations are consistent with State law and Federal requirements. In addition, organizational experience with these Policies has shown that the policies, in some cases, lack clarity and specificity and the proposed revisions provide for clarification and enhancement. Lastly, the Federal Transit Administration completed a Financial Management Oversight (FMO) review and their final report dated July 3, 2012 suggested that the District develop an Ethics and Conflict of Interest Policy related to procurement, enhance recording keeping requirements and development of dispute and protest procedures related to procurements.

Recommendation: Review and discuss the proposed changes and address any Committee recommendations prior to forwarding to the Board for consideration at their September 7, 2012 meeting.

Attachments:

- Current Procurement Policies.
- Revised Procurement Regulations (to be distributed).

NCRTD Board Adopted Resoution 2007-13
August 14, 2007

North Central Regional Transit District (NCRTD)

Procurement Policies

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NCRTD Board Adopted Resoution 2007-13

SECTION I: GENERAL PROVISIONS

1.1 User Applicability. These procedures and provisions apply to all departments and personnel authorized to make purchases from public funds budgeted, controlled by or otherwise under the supervision of the North Central Regional Transit District (hereinafter the NCRTD). .

1.2 Administration. The responsibility for administration of the provisions of this policy shall be under the Executive Director. The Executive Director shall have the responsibility and authority to insure that all provisions of law and this policy are followed and shall be authorized to issue any supplemental regulations consistent with this policy deemed necessary to administer, manage or clarify this policy. Supplements shall be approved by the NCRTD, and Certified copies of all supplements shall be attached to and made a part of this policy. The Executive Director shall be responsible for having the knowledge to insure that all provisions of this policy and all other purchasing concerns and activities of the NCRTD are appropriate and consistent with the most current, generally accepted purchasing techniques, and all provisions of the law. Upon the absence of the Executive Director, the Executive Director's designee will be responsible for approval and enhancement of provisions as set forth in this policy.

1.3 Purchasing Agent. The Purchasing Agent for the NCRTD shall be the Executive Director

1.4 User Authority and Responsibility. Only individuals authorized by the Executive Director or designee of NCRTD shall be permitted to make purchases.

1.5 Definition of a Purchase. For the purpose of this policy a purchase includes the execution of any expense to be paid out of supervised funds.

1.6. Unauthorized Purchases. Any Purchase which is not legally and appropriately approved within the budget or by other NCRTD action, or which does not substantially comply with the provisions of the State Statutes, particularly the State Procurement Code, and the provisions of this policy shall be considered an unauthorized purchase, and thereby not subject to payment by the NCRTD. The NCRTD hereby declares and establishes that it will assume no responsibility for payment of unauthorized purchases. Furthermore, any individual initiating or otherwise executing any unauthorized purchase is solely responsible for payment and may be subject to disciplinary action up to and including dismissal. All authorized purchases shall be legally budgeted or approved within an appropriate fund or agency account, or within an appropriate line item as approved by the NCRTD. All questionable purchases shall be submitted to the Executive Director for review and a determination shall be made by the Executive Director regarding the purchase being an authorized or unauthorized purchase under the provisions of this policy.

1.7 Civil Penalties. Persons knowingly violating the State Procurement Code may be subjected to a civil penalty of up to $1,000 for each violation in accordance with the New

Mexico State Statutes. In addition, persons knowingly violating the State Procurement Code may be subject to disciplinary action up to and including termination of employment by the NCRTD.

1.8 Approval of Unauthorized Purchases. All purchases determined to be an unauthorized purchase shall be considered by the Executive Director, which at his or her discretion may approve or not approve an unauthorized purchase for payment. Unauthorized purchases shall not be approved or processed for payment prior to Executive Director approval.

1.9 Consistency with State Procurement Code. The provisions of this policy are subject to change as per State Procurement Code revisions. Any State Procurement Code revision that is inconsistent with the provisions of this policy shall rule. All authorized purchasers shall be given a copy of such revisions and notified that they are in effect.

1.10 Amendment. Amendment of this policy shall be executed by resolution approved by the NCRTD Board of Directors.

1.11 Interpretation of Policy Supplements. In any case that a provision of the purchase policy is vague or unclear, the Executive Director may provide a written supplement for clarification of the provision which shall be implemented consistently by all departments and offices, a copy of which should be attached to this policy.

SECTION II: STANDARD PURCHASING PROCEDURES

2.1 Standard Purchasing Procedure Applicability. The provisions of this section apply to all standard or non-emergency purchases and are hereafter referred to as "standard purchasing procedures" in this policy. "Standard Purchases" are described as systematic, planned and necessary purchases for administration and operation of a project or department. There shall be no exception to these standard procedures except as provided in "Non-Standard, Urgent and Emergency Purchases Procedures" in Section III of this policy.

2.2 Initiating a Purchase: Purchase Requisition. All standard purchases as authorized by this section require that a written Requisition be completed and be submitted to the Executive Director prior to making a purchase. The person making the requisition shall be responsible for obtaining competitive pricing and making the actual purchase. Purchasers shall not make actual purchase unless directed or authorized to do so by the Executive Director. Purchase Requisitions shall be signed by an authorized purchaser and shall contain all information as required by the Executive Director to include but not be limited to:

A. Date - Date the requisition is prepared.

B. Fund — The grant or program out of which the expenditure is to be paid. By

specifying a Fund the purchaser certifies that the purchase is allowable under that

grant and that there is sufficient budget in the line item to cover the cost of the proposed purchase.

C. Department Head or Authorized Agent - Signature.

D. Required Date of Delivery - Estimated date of delivery may be procured from vendor.

E. Suggested Suppliers - Department or division initiating the requisition shall list any known suppliers, including phone numbers and addresses of such suppliers.

F. Quantity - specify a unit and the approximate amount per unit being requested. Units may be "each", "box", "gallons", "reams", "pounds", etc.

G. Description - The description of the items or services must be sufficiently complete to identify the item being purchased and to allow processing of the requisition without requesting additional information. Common use items may be identified by brand name.

H. Cost, or estimated cost if exact cost cannot be determined.

I. Account - The appropriate budgeted line item account number must be shown on each requisition in order for the costs of the items purchased to be appropriately charged. It is the purchaser's (as described in 1.4 of this policy) responsibility to assign the line item account number to the requisition. Requisitions may include multiple line items PROVIDED they are within the same fund. Requisitions which do not include the above information will be refused by the Executive Director or ED's representative. After a complete requisition is accepted by the Executive Director, a purchase order will be processed.

2.3 Purchase Orders. A purchase order shall be obtained by a purchaser prior to executing a purchase or receiving the purchased items. Purchases executed prior to obtaining a purchase order are prohibited, except as otherwise provided in "Non-Standard and Emergency Purchasing Procedures", Section III of this policy. The purchaser shall inform the vendor that the purchase order number must be included on the invoice submitted for payment.

2.4 Invoices. An invoice is an itemized statement submitted by the vendor for payment for goods or services delivered. It is the responsibility of the vendor to insure that a purchase order number is provided prior to issuing goods or services and the vendor shall include the purchase order number on the invoice submitted for payment. Exceptions to this policy must meet all criteria as outlined in 3.2B of this policy. In cases where purchase order numbers are not included on the invoice when required, the vendor shall be informed. The vendor will be notified that if improper invoicing procedures continue to occur, the Executive Director may exclude the vendor from the vendor list. Also, the NCRTD may refuse payment in any case where there is an unauthorized purchase.

A. Processing for Payment. It shall be the responsibility of the Executive Director to insure that all invoices received are appropriately authorized prior to payment and that the purchase order numbers are on the invoices when required. The Executive

NCRTD Board Adopted Resoution 2007-13

August **14,** 2007

Director shall be responsible for insuring that appropriate procedures are

established and used for payment after invoices are received to include that payment is made timely, and to insure that discounts are received and late charges avoided.

B. Verification of Invoices. All invoices shall be signed by the person receiving the goods or services prior to payment to insure materials and services have been received and to verify it is authorized for payment. A signed Payment Requisition may substitute for a signature on an invoice.

2.5 Over Expenditures. Requisitions shall not be initiated and purchase orders shall not be issued, approved or processed in cases that line items will be over expended, except as approved by the Executive Director in accordance with State and NCRTD regulations and provisions and provided there are legally sufficient budget balances available. It shall be the primary responsibility of the purchaser to insure sufficient funds are available prior to initiating a purchase. The Executive Director or ED's designee shall make available sufficient information upon request to keep purchasers properly updated on budget balances, and shall notify any purchaser if, after analysis of the monthly budget report, there are any indications of an existing or impending budget balance problem. It is primarily the purchasers' responsibility to make sure they have sufficient information to make purchasing decisions.

2.6 Competitive Purchases. The Executive Director shall attempt to insure that all purchases are made at the best possible prices, and purchases shall be made in accordance with the following provisions:

A. $250 or Less. Purchases shall be made according to the best obtainable price. (Note: Purchases may be from petty cash in accordance with petty case purchases as established by written procedures of the Executive Director in accordance with Section 3.5 of this policy.)

B. $251 to $2499. Purchases shall be made according to the best obtainable price provided at least three (3) bona fide verbal quotes from different vendors have been obtained for such purchases. These quotes are required to be recorded on a price quote form except as provided in Sections 2.6.F & G below.

C. $2499 to $10,000. Purchases shall be made according to the best obtainable price provided at least three (3) bona fide written quotes are obtained. The Executive Director may, at his or her discretion, waive this request for written quotes and require three (3) bona fide verbal quotes.

D. $10,000 and above. (Except as stated in Sections 2.6.F and G of this policy). All purchases exceeding $10,000 require formal bid procedures as specified by State regulations and shall be processed and executed by the Executive Director through formal procedures, such as, for example, issuing an RFP. The Executive Director shall draw up all bid specifications.

E. Telephone and Written Quote Exceptions. In the event there are not three (3) known local vendors which have materials/services available, less than three (3)

quotes are permissible provided the purchaser, Executive Director or ED's designee verifies that every reasonable attempt has been made to obtain three (3) quotes, and the quotes obtained will be included with the requisition. When there is only one vendor available, Sole Source Documentation as described in Section 2.7 of this policy must be included with the requisition. When the vendor has a State or Federal Purchasing Contract, or if a vendor has an agreement or contract with the NCRTD to provide goods or services, multiple quotes are not required.

F. State or Federal Purchasing Contracts and Cooperative Bid Exceptions. Direct purchases may be made in cases that a vendor has a State or Federal Purchasing Contract recorded in the Purchasing Office. Also, the NCRTD may purchase items cooperatively through another public body's bid process consistent with State regulations.

G. Bid Specifications. Specifications should be written primarily to address the needs of the NCRTD for a specific item to perform a specific function. Specifications written for purchases shall not be "closed or exclusive", or otherwise written in such a way as to intentionally favor or exclude a vendor. Reference to specific types or quality shall be followed by "or equal" and all specifications regardless of wording shall be considered as "or equal". It shall be the purchaser's responsibility to insure that all specialized technical aspects of specifications are correct and appropriate, and to point out any questionable, unusual or inappropriate specifications to the Executive Director prior to processing. The bidding process may be waived after approval of the Executive Director in cases that a vendor has a State or Federal Purchasing Contract.

2.7 Sole Source Purchase. A sole source purchase is permissible when there is only one vendor in the overall geographical region that can provide an item or service. The Executive Director shall certify that a good faith effort has been made to contact other vendors in the overall geographical region where the sole source purchase will be made, and that the chosen vendor of the item or service is the only source found to be available in the region. The Executive Director shall certify that every effort has been made to determine if there is a Federal Purchasing or State Contract for the item or services requested and that negotiations, as appropriate, have been conducted with the sole source vendor to determine that the price quoted is the best obtainable price. The NCRTD office shall maintain for a minimum of three years, records of all sole source procurements. The record of such procurement shall be public record and shall contain:

A. The contractor's name and address;

B. The amount and item of the contract;

C. A listing of the services, construction or items of tangible property procured under the contract; and

D. The justification for the procurement method.

2.8 Fixed Asset Purchase. All capital outlay purchases are considered fixed assets and shall be noted as such on the purchase requisition. It shall be the responsibility of the

Purchasing Office to screen all purchases and identify and process fixed assets in accordance with the current State law and provisions regarding fixed assets.

2.9 Procurement of Professional Services. All professional services having a value not exceeding twenty five thousand dollars ($25,000) will be procured at the best negotiated value.

2.10 Personal Use Prohibited. There shall be no purchases made for the purpose of personal or private use.

SECTION HI. NON-STANDARD, URGENT AND EMERGENCY PURCHASING PROCEDURES.

3.1 Non-Standard, Urgent and Emergency Procedures: General Provisions. The provisions of this section apply to all purchases other than purchases subject to the standard purchasing procedures as specified in Section II of this policy. Generally, this section includes all purchases which are justifiably urgent or are emergencies, and cannot, therefore reasonably follow the standard purchasing procedures due to insufficient time required for standard processing, and other non-standard procedures which are not applicable to the standard purchasing procedures of this policy. It is the responsibility of the purchaser to insure that all purchases made under provisions of this section are the result of immediate and unforeseen circumstances. Questionable purchases shall be reported to and reviewed by the Executive Director.

3.2 Emergency or Urgent Purchases. Emergency or urgent purchases are deemed to be authorized purchases only in cases which are justifiably necessary and cannot be delayed until the standard purchasing procedures can be utilized. Purchases which could have been reasonably pre-planned or anticipated shall not be considered as emergency or urgent purchasers. Emergency or urgent purchases are permissible provided they are in accordance with the following provisions:

A. Urgent Purchases. An urgent purchase is a purchase made after normal working hours of the office making the purchase, which justifiably requires immediate purchase, and which cannot be telephoned in to the Executive Director to obtain a purchase order number prior to the purchase being made. A written requisition shall be submitted by three (3) normal working days after purchaser returns from a trip in which a non-local purchase was made. In cases that an invoice is received by the agency office prior to a requisition being submitted, processing shall not proceed until a written requisition is submitted indicating it was an "Urgent Purchase."

B. Emergency Purchase. An emergency purchase is permissible when there is an existing condition which creates a threat to public health, welfare or safety such as may arise by reason of floods, epidemics, riots, equipment failures or similar events. The existence of the emergency condition creates an immediate and serious need for procurement of goods or services that cannot be met through

normal procurement methods and the lack of which would seriously threaten the functioning of government; the preservation or protecting of property; or the health or safety of any person. The existence of an emergency condition must first be determined by the Executive Director. The NCRTD office shall maintain for a minimum of three years records of all emergency procurements. The record of such procurement shall be public record and shall contain:

1. The contractor's name and address
2. The amount and term of the contract, and
3. A listing of the goods and services procured under the contract.

A written description of the basis for determining that there was an emergency and for the selection of the particular vendor or contractor shall be included in the procurement file.

C. Urgent or Emergency Requisitions. All urgent or emergency requisitions shall have the words "Urgent" or "Emergency" written on the top as is applicable, and shall be accompanied by a receipt or invoice for the purchase.

D. Justification. In all cases that urgent purchases are telephoned to the NCRTD office, the office shall verify authorization and request verbal justification for the purchase prior to assigning a purchase order number. All emergency and urgent purchases shall be justifiable and the purchaser shall be responsible for attaching a written justification to the requisitions.

3.3 Remote or Off-Site Purchases. Those purchasers who are located within a remote or off-site area which physically hinders submitting requisitions prior to the purchase shall use procedures established by the Executive Director as a supplemental regulation to this policy.

3.4 Open Purchase Order. For the purpose of this policy, open purchase orders are purchase orders which are utilized for numerous and repeated daily purchases which are anticipated over an extended period of time, but in no event may overlap fiscal years. The Executive Director may establish a cap on open purchase orders as a supplemental regulation to this policy.

3.5 Petty Cash Procedures. Petty cash funds are cash funds which are made readily available to offices or department heads for the purpose of making small cash purchases. A petty cash fund shall not exceed $50.00. Increases in petty cash funds must have approval from the Executive Director. The Executive Director shall be responsible for establishing written safeguards, provisions and procedures to insure appropriate accounting and maximum accountability for all petty cash funds. The Executive Director may at any time change the procedures for petty cash funds, or eliminate a petty cash fund if deemed appropriate, and shall eliminate a petty cash fund in cases that procedure are not being reasonably followed, or in cases that unnecessary or repetitious shortages/overages in funds occur. Petty cash funds are subject to audit by the Executive Director or ED's designee at any time without notice. Custodians shall be assigned to

each individual petty cash fund and be held responsible and accountable to the Executive

Director for the appropriate management of the petty cash funds. All custodians shall be required to sign for a copy of the Petty Cash Procedures and shall be knowledgeable thereof. Copies of updated Petty Cash procedures shall be attached to and made a supplement of this policy.

3.6 Used Equipment and Item Purchases. Funds for used equipment and items shall be specifically appropriated by the Executive Director for such purchases. Such purchases shall be in accordance with Section 2.6 of this Policy to include the following provisions:

> The Executive Director is authorized to approve purchases of used equipment not to exceed the amount of funds appropriated for such purchases. Used equipment or items with a price or estimated value of $5,000 or more shall require bids as though the items were new, adding specifications that permit used items under conditions to be outlined in the bid specifications including but not limited to requiring a written warranty for at least ninety days after the date of delivery, and an independent "certificate of working order" by a qualified mechanic or appraiser.

3.7 Special Funds. Funds for specialized activities, such as special boards, undercover operations, etc., shall be specifically appropriated by the NCRTD. The Executive Director shall be responsible for preparing written supplemental regulations establishing safeguards, provisions and procedures to insure appropriate accounting and maximum accountability for such funds. The person carrying out the specialized activity shall be the custodian strictly responsible for the appropriate use of these funds and shall sign for a copy of such written procedures Copies of updated procedures shall be attached to and made a supplement of this policy.

3.8 Routine Monthly purchases and Other Non-Standard Purchases. Routine monthly purchases such as utility bills or other service charges and other non-standard purchases such as professional services, lease purchases, formal bids, purchases of real property, funds appropriated for support to other agencies, emergency purchases, or other purchases requiring special purchases shall be processed in accordance with State Statutes and written procedures established by the Executive Director. Copies of updated procedures shall be attached to and made a supplement to this policy.

3.9 Approval and Revision of Supplements. All supplemental regulations or revisions of this policy except as specified above as the responsibility of the Executive Director, shall be approved by the NCRTD Board of Directors and attached to and made a part of this policy.